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September 9, 1996

Arizona Corporation Commission

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Arizona Corporation Commission  
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1200 West Washington  
Phoenix, Arizona 85007

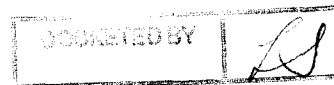
Dear Commission Staff:

Garkane Power Association, in response to the Commission Staff's request for comments on Electric Industry Restructuring, Docket No. U-0000-94-165, hereby submits the attached comments relative to your proposed draft rule dated August 27, 1996.

Respectfully Submitted,

GARKANE POWER ASSOCIATION, INC.

Carl R. Albrecht  
General Manager



"DISTRICT OFFICE SERVICE CENTERS"

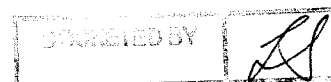
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Arizona Corporation Commission  
Docket No. U-0000-94-165 - Comments on Proposed Rule  
Garkane Power Association, Inc.  
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In your request for comments on the proposed rule, you ask for succinct and specific suggestions. Unfortunately, Garkane Power Association does not have the luxury of extra staff personnel with spare time to devote to a thorough study of the matter by your September 12 deadline. As a nonprofit rural electric cooperative, we all shoulder numerous responsibilities. Nevertheless, we offer the following general observations concerning the draft rule;

The comments Garkane submitted to the Arizona Corporation Commission June 26, 1996 contained the following statement, "Retail wheeling will give large industrial consumers even greater leverage than they already enjoy. This will enable them to extract lower rates from utilities, but these utilities will continue to have very substantial fixed costs just as they have today. Unfortunately, if retail wheeling is mandated, those fixed costs will be increasingly borne by residential consumers. Large industrial customers could easily shop the market and switch suppliers to obtain the lowest rate, but households would not necessarily enjoy the same leverage. Residential consumers served by relatively small electric utilities, such as rural electric cooperatives, are particularly vulnerable to rate increases. These small utilities have relatively few large industrial consumers of electricity. If these large loads are lost as a result of retail wheeling, the remaining residential consumers of these small utilities could be hit very hard." Unfortunately, your proposed rule only lends credence to our observations.

Several parts of the proposed rule require your further clarification. For example, R14-2xxx4 asks that an affected utility make available at least 20 percent of its 1995 system retail peak demand for competitive generation supply to all customer classes by January 1, 1999. This increases to 50% by 2001 and 100% by 2003. Moreover, the Buy-through carves out another 5% availability. While in theory this may accomplish your objectives, in reality this scheme will cause chaos and frustration to existing electric grids. What do you propose when a demand for energy exceeds a system's capacity? Generation cannot be forced to other areas because the price is right. As we stated in our June 26 comments, the power grid was not designed to accommodate multiple generators contracting independently with industrial customers. The effects of retail wheeling on this system are unknown.

Section R14-2-xxx7 on Recovery of Stranded Investment of Affected Utilities, in our opinion, essentially leaves the future existence of affected utilities up to the Commission. Language in the section reveals the Commission will decide somewhere along the way how to deal with Stranded Investment. The section merely allows affected utilities to file estimates and requests for possible consideration. Moreover, no recovery of Stranded Investment will occur after December 31, 2004 - a short two years after full competitive generation supply is implemented. Undoubtedly one of the biggest questions surrounding retail wheeling is Stranded Investment. In fairness to existing utilities who have made investments to provide safe and reliable electricity, the Commission should be clear on what it will and will not allow before proceeding ahead with implementation of retail wheeling. Unfortunately nothing in the proposed rule ensures small businesses and residential consumers won't ultimately pay more to help cover the expenses associated with poles, wires, etc., built to

supply power to the industrial customer which seeks greener pastures from other suppliers.

One of the more troubling aspects of the proposed rule is R14-2-xxx9, Solar Portfolio Standard. Again, this appears to be more of a theoretical abstraction than practical application. Logic seems to indicate total solar sources throughout the world would not significantly exceed 2% of the total retail energy sold in Arizona, let alone from solar resources installed on or after January 1, 1997. While this creates an obvious windfall to producers of solar energy, the penalty to companies selling electricity could be significant. We question if the rule's objectives are achievable.

Section R14-2-xxx13, Service Quality, Consumer Protection, Safety, and Billing Requirements does little to address safety and reliability under retail wheeling by establishing a working group for monitoring and review. Here again guidelines should be developed before accidents and widespread outages occur. Established utilities have invested untold resources to provide the current level of safe and reliable service now enjoyed by customers. Who will bear the responsibility for educating the public on matters of safety around electricity, or who will take the blame following an accident? Safety and reliability should not now be jeopardized in the rush to seek short term gains.

In addressing reliability, the New Hampshire pilot project offers a bounty of examples for what potential suppliers will do to attract customers. What protection exists to ensure suppliers do not take drastic measures to keep them, such as deferring expenses in an effort to become competitive which could ultimately lead to deteriorated or inadequate capacity or neglected maintenance?

In summary, our reading of your proposed rule leaves us with the impression the rule was drafted to accommodate the desires of large users and independent producers of electricity that retail wheeling be implemented immediately for their benefit. The responsibility of providing Standard Offer service is left to the affected utilities while new entrants to the market focus their efforts on gimmicks to take customers away from the utilities. Moreover, the proposal leaves many areas open to future interpretation, in our opinion somewhat uncharacteristic of the Arizona Corporation Commission. What exactly is the methodology to be used by the Commission in determining "that competition has been substantially implemented?" (R14-2-xxx6). Wouldn't it be prudent to conduct an inquiry into pooling and dispatch arrangements for transmission and generation (R14-2-xxx10) and review the results before implementing a process that may be dependent on such an arrangement?

It is unfortunate the Commission, following task force reports designed to identify issues, simply determined to solicit comments on how to implement restructuring. We believe the Commission's role to serve the people should have dictated a more objective study to analyze the effects of retail wheeling on all aspects of the industry and all classes of customers. Then specific proposals should have been outlined for dealing with issues such as stranded investment, pooling and dispatch, safety and reliability, etc., instead of electing to only consider these matters as they arise.

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